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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

US Zone authorities, Germany, have laid down conditions to govern the proposed airlift of DPs to Palestine by Pan African Air Charters (PAAC). As PAAC is strongly suspected of having participated in operations contravening the UN Security Council Resolution which governs the Palestine truce, US authorities in Germany will carefully supervise the forthcoming operations, and PAAC will be held responsible for aircraft of other carriers which it may charter. This close surveillance, if rigidly maintained, will probably close the route from the US Zone to Palestine for illegal traffic and effectively restrict operations to the transportation of legitimate DPs. (Item No. 1, C)

The contemplated merger of three Italian airlines, SISA, Transadriatica and Aerone, would create an integrated Mediterranean-based air network extending to Hungary, Czechoslovakia, Germany (US Zone), France, Spain, Greece and the Near East. Strengthening Italian civil aviation through consolidation of the many small commercial airlines is an announced objective of the Italian Government. Although the financial position of Transadriatica and Aerone is insecure, the resources of SISA (80 percent owned by the powerful Cosulich Shipping interests) would contribute materially to the stability of the group. While direct Communist affiliations have not been established, SISA obviously enjoys friendly operating relations with Satellite countries. This fact is of some political significance because the proposed merger will substantially strengthen the influence in Italian civil aviation of the Cosulich interests which are based in the highly sensitive Trieste area. (Item No. 2, C)

Increasing Soviet pressure upon Italy for ship construction in fulfillment of reparations obligations may force the Italian Government to negotiate tanker contracts despite US and domestic opposition. (Item No. 3, A)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. Pan African Air Charters (PAAC), a South African corporation which conducts civil air operations for the State of Israel, is attempting to organize the airlift of DP's from the US Zone Germany to Palestine. For this purpose it is seeking to augment its fleet of eight DC-3's with transport aircraft chartered from several US irregular air carriers. (Two C-46s owned by Great Circle Air Freighters are already operating in Europe on behalf of PAAC and negotiations for other aircraft have been undertaken with Skyways International, Associated Air Transport, Inc. and World Airways.) The scale of contemplated operations may be indicated by recent flights from Geneva to Haifa, when twenty-seven PAAC departures within five days carried approximately 750 persons.

Permission for the DP program will be given PAAC only if it can produce a formal contract with the official Jewish Agency for Palestine. Furthermore, as PAAC is strongly suspected of having participated in operations contravening the UN Security Council Resolution which governs the Palestine truce, US authorities in Germany will carefully supervise the forthcoming operations, and PAAC will be held responsible for aircraft of other carriers which it may charter. The processing of applications for all flight clearances will be centralized, moreover, and inspection of cargoes and manifests will be carried out prior to each flight.

This close surveillance, if rigidly maintained, will probably close the route from the US Zone to Palestine for illicit traffic and effectively restrict operations to the transportation of legitimate DP's.

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2. The contemplated merger of three Italian airlines, SISA, Transadriatica and Aerone, would create an integrated Mediterranean-based air network extending to Hungary, Czechoslovakia, Germany (US Zone), France, Spain, Greece and the Near East. (SISA operates to Haifa via Athens, to Prague via Trieste and to Barcelona via Marseilles. Transadriatica operates to Budapest and Frankfurt. Aerone connects Sardinia with the Italian mainland.)

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Strengthening Italian civil aviation through consolidation of the many small commercial airlines is an announced objective of the Italian Government. Although the financial position of Transadriatica and Aerone is insecure, the resources of SISA (80 percent owned by the powerful Cosulich Shipping interests) would contribute materially to the stability of the group. At various times suspicions have been voiced concerning the political affiliations of SISA and the British have refused SISA landing rights at Cyprus on the grounds that the company has participated in the clandestine shipment of contraband to Palestine. Actually, SISA received special consideration from Yugoslavia (prior to the Italian elections) in being permitted to schedule operations into Belgrade although Italy had not granted reciprocal rights to Yugoslav airlines. While direct Communist affiliations have not been established, SISA obviously enjoys friendly operating relations with Satellite countries. This fact is of some political significance because the proposed merger will substantially strengthen the influence in Italian civil aviation of the Cosulich interests which are based in the highly sensitive Trieste area.

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SURFACE TRANSPORTATION

3. The USSR is bringing increasing pressure on Italy to undertake ship construction for Soviet account in fulfillment of reparations obligations. Acceding to both US and domestic opposition to payment of reparations before they are due, the Italian Government has sought to delay these negotiations. It now appears, however, that such tactics are endangering Italian-Soviet trade negotiations, conclusion of which would have political and economic advantages to Italy. The Italian Government, therefore, wishes to obtain US approval of tanker construction for the Soviet reparations account. Italian representatives have pointed out that such contracts would relieve widespread unemployment in Italian shipyards and thereby decrease Communist influence in the ranks of labor. Furthermore, since actual deliveries could not be made until early in 1951, it is emphasized that the vessels would be available for completion and operation by the Western Allies in the event of a crisis in Europe before that time.
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